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# Tennessee State Funding Board

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December 11, 2014

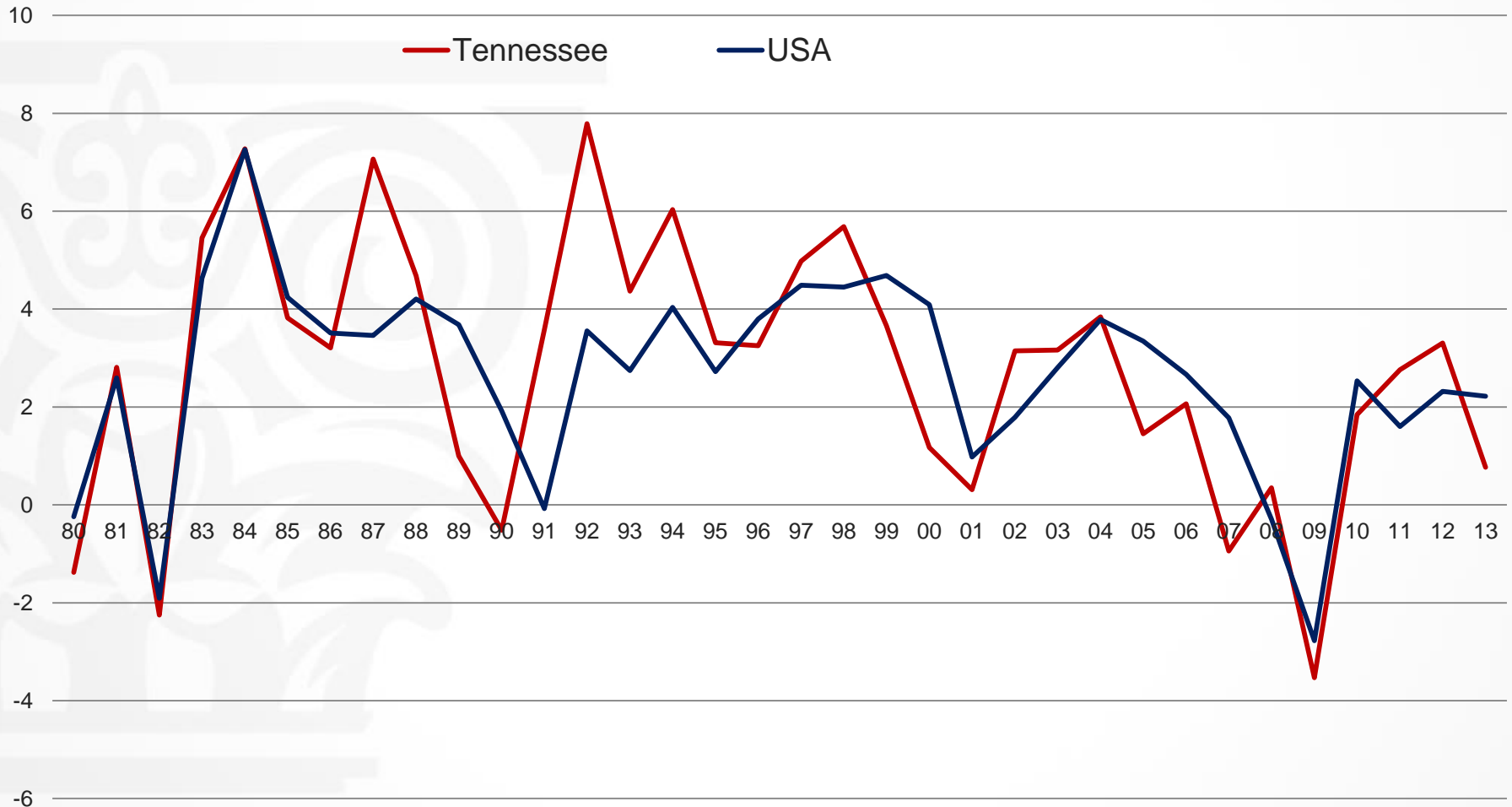
Lee Jones

Regional Executive - Tennessee

The views expressed are mine and not necessarily those of the Atlanta Fed or the Federal Reserve System.

# Tennessee's economic performance largely mirrors that of the United States

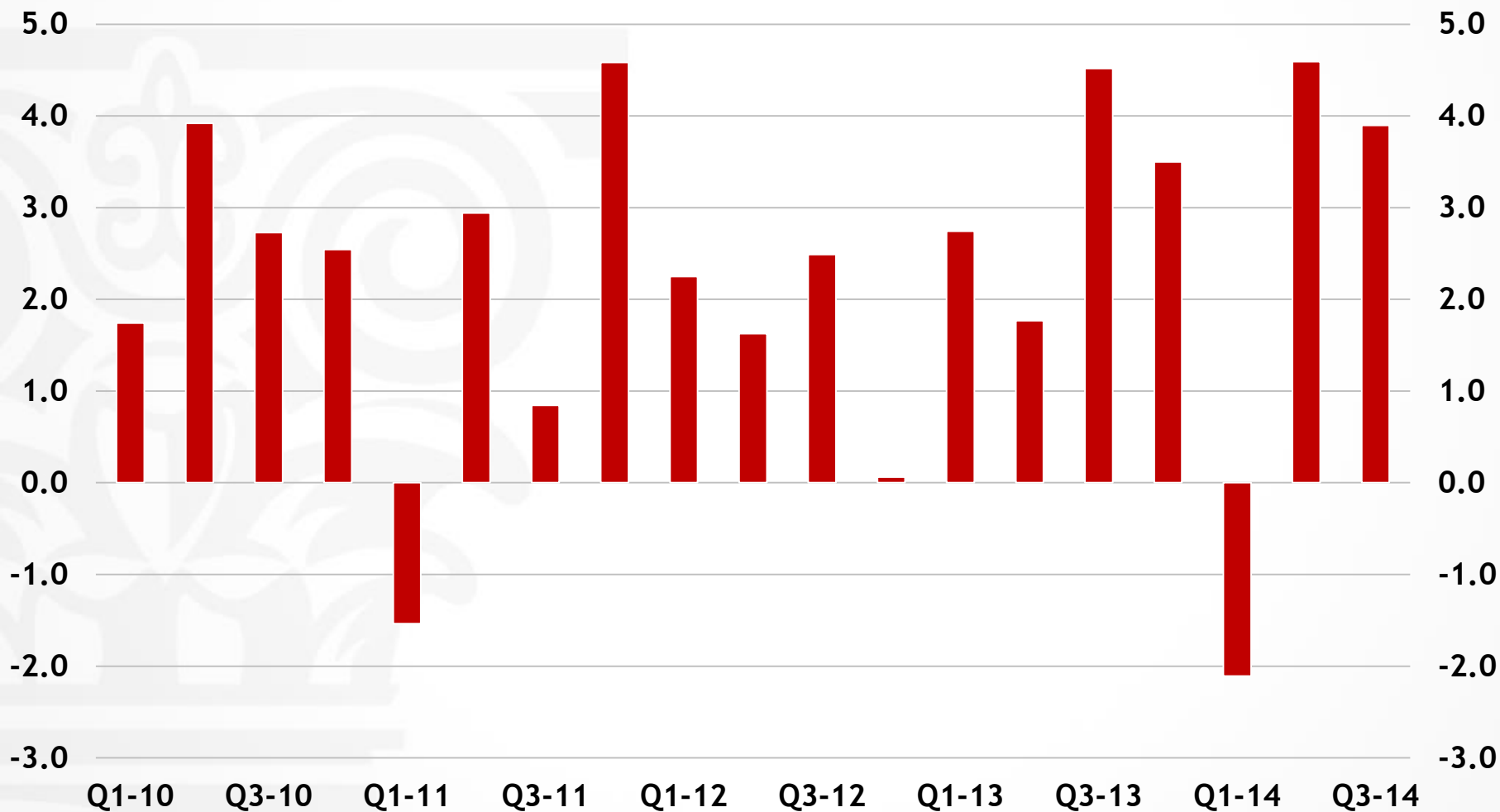
**Economic Growth in Tennessee and the U.S., 1980-2013**  
year-over-year % change



Source: Bureau of Economic Analysis

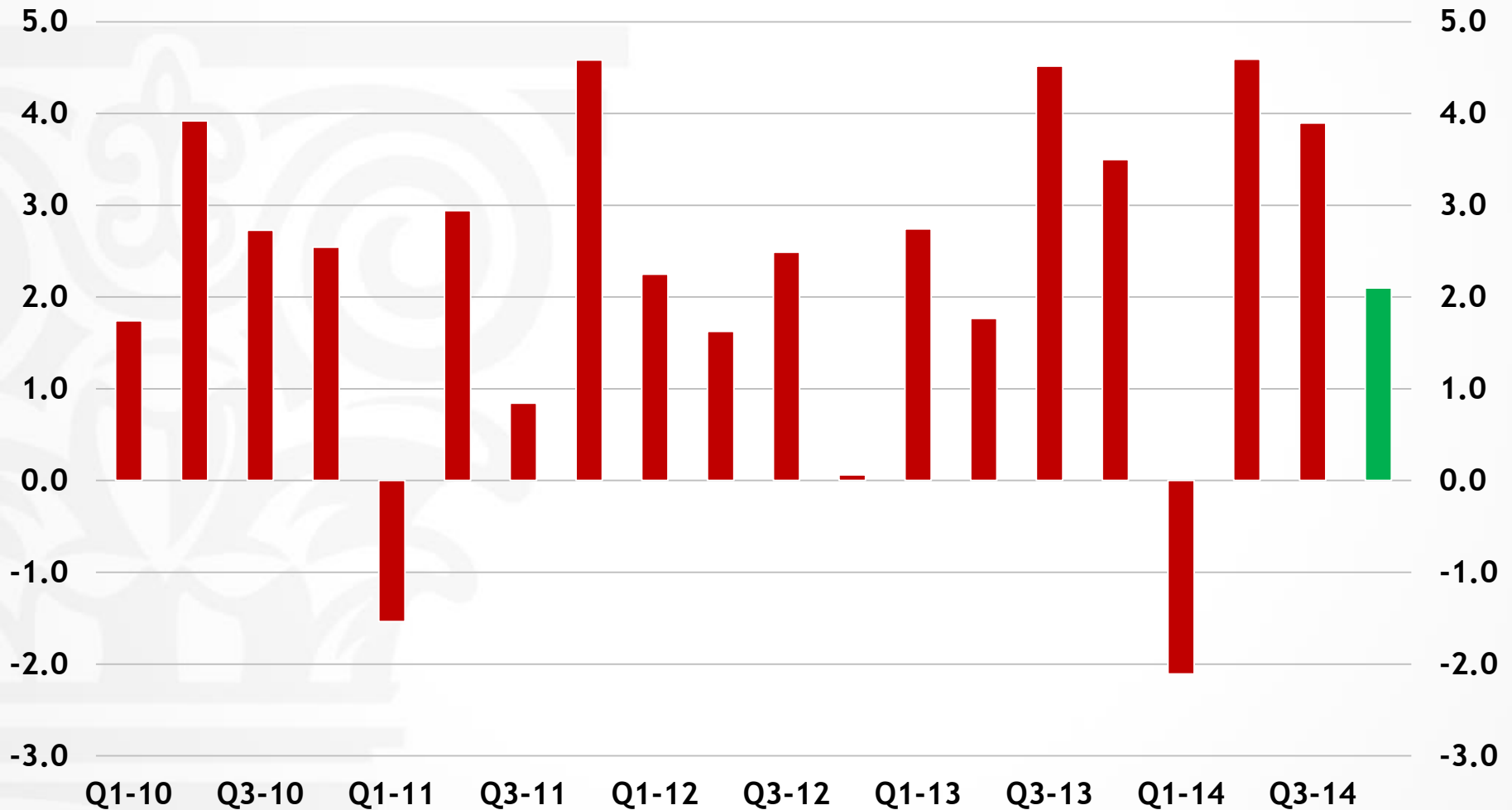
Since the recovery began in the summer of 2009 until mid-2013, growth has averaged about 2%. Growth over the past five quarters, on average, has shown marked improvement.

**Real GDP Growth**  
annualized % change, SA



**Current 4Q2014 estimates from the Atlanta Fed's "GDP Now" tracking model indicate the likelihood of a moderation in the rate of growth.**

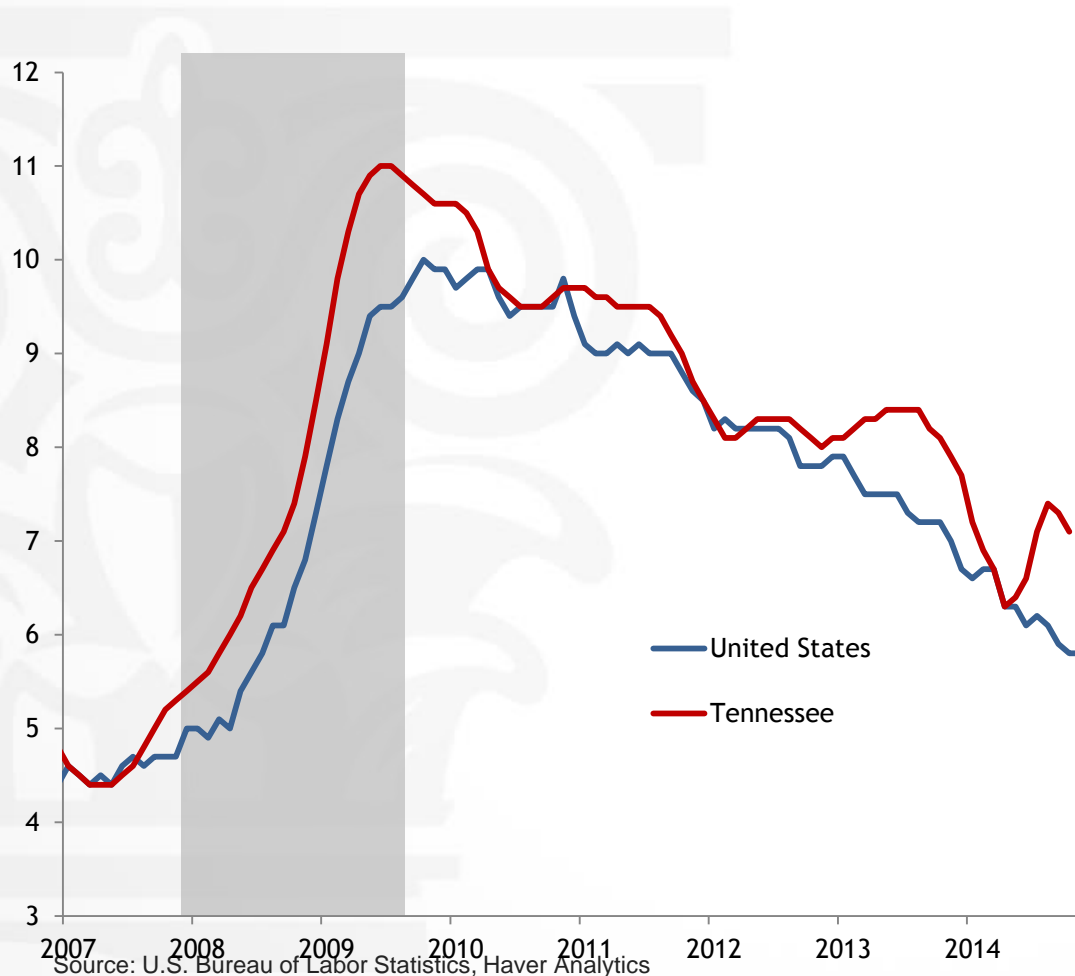
**Real GDP Growth**  
annualized % change, SA



**As evidenced by the jobless rate, Tennessee was harder hit by the recession than the US as a whole. For the most part, unemployment in the state has remained above the national rate.**

## Unemployment Rates October 2014

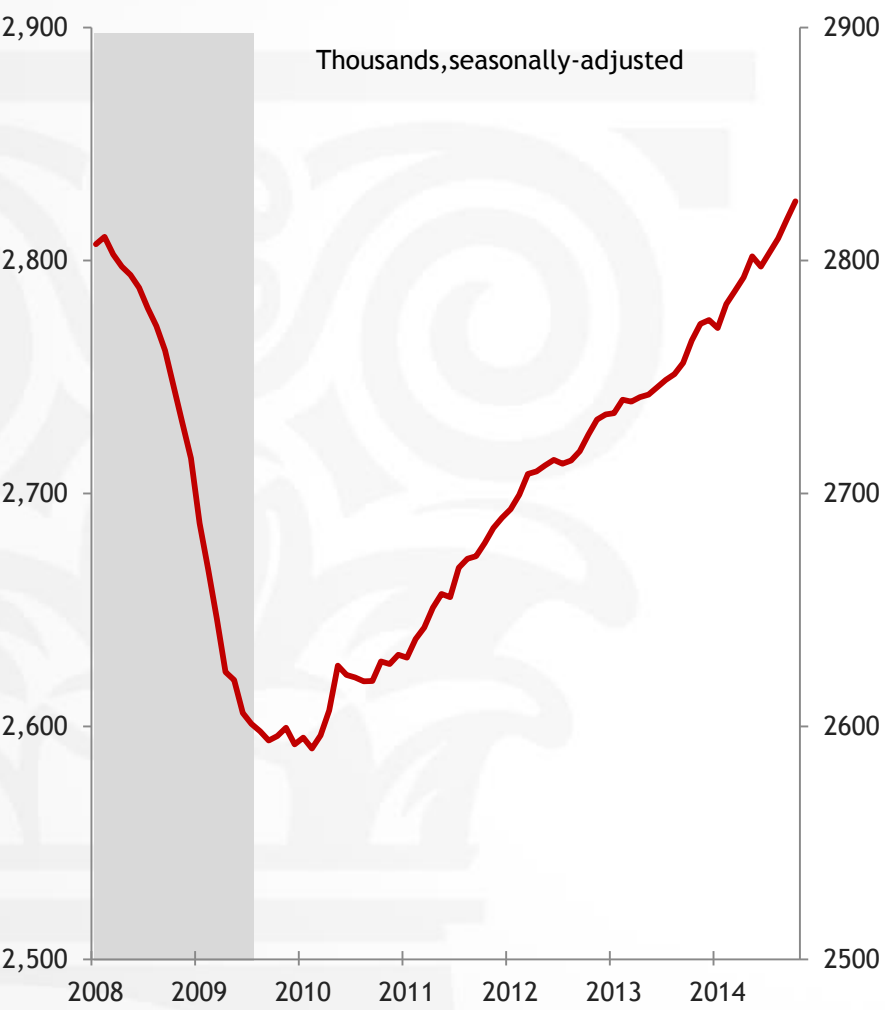
Percent of labor force



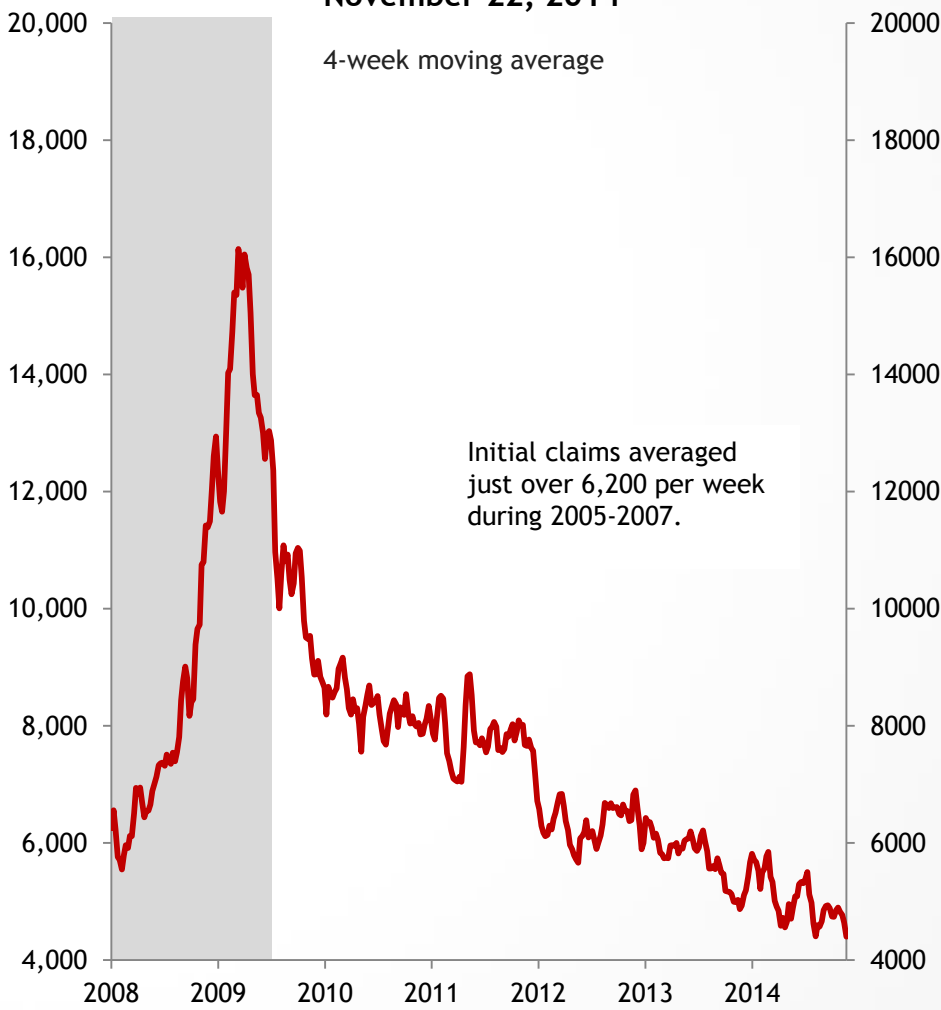
| Unemployment Rates |         |          |          |
|--------------------|---------|----------|----------|
|                    | Current | Year Ago | Jan 2007 |
| United States      | 5.8     | 7.2      | 4.6      |
| Tennessee          | 7.1     | 8.1      | 4.6      |
| Chattanooga        | 6.4     | 7.4      | 4.4      |
| Clarksville        | 7.1     | 8.8      | 5.7      |
| Cleveland          | 6.2     | 7.4      | 4.9      |
| Jackson            | 6.7     | 8.2      | 5.6      |
| Johnson City       | 6.5     | 7.6      | 4.8      |
| Kingsport-Bristol  | 6.4     | 7.3      | 4.8      |
| Knoxville          | 5.6     | 6.7      | 4.1      |
| Memphis            | 7.9     | 9.2      | 5.8      |
| Morristown         | 7.2     | 9.0      | 6.1      |
| Nashville          | 5.3     | 6.4      | 4.2      |

Both payroll employment and initial unemployment insurance claims have slowly returned to pre-recession levels and continue to show signs of improvement.

Tennessee Payroll Employment  
October 2014

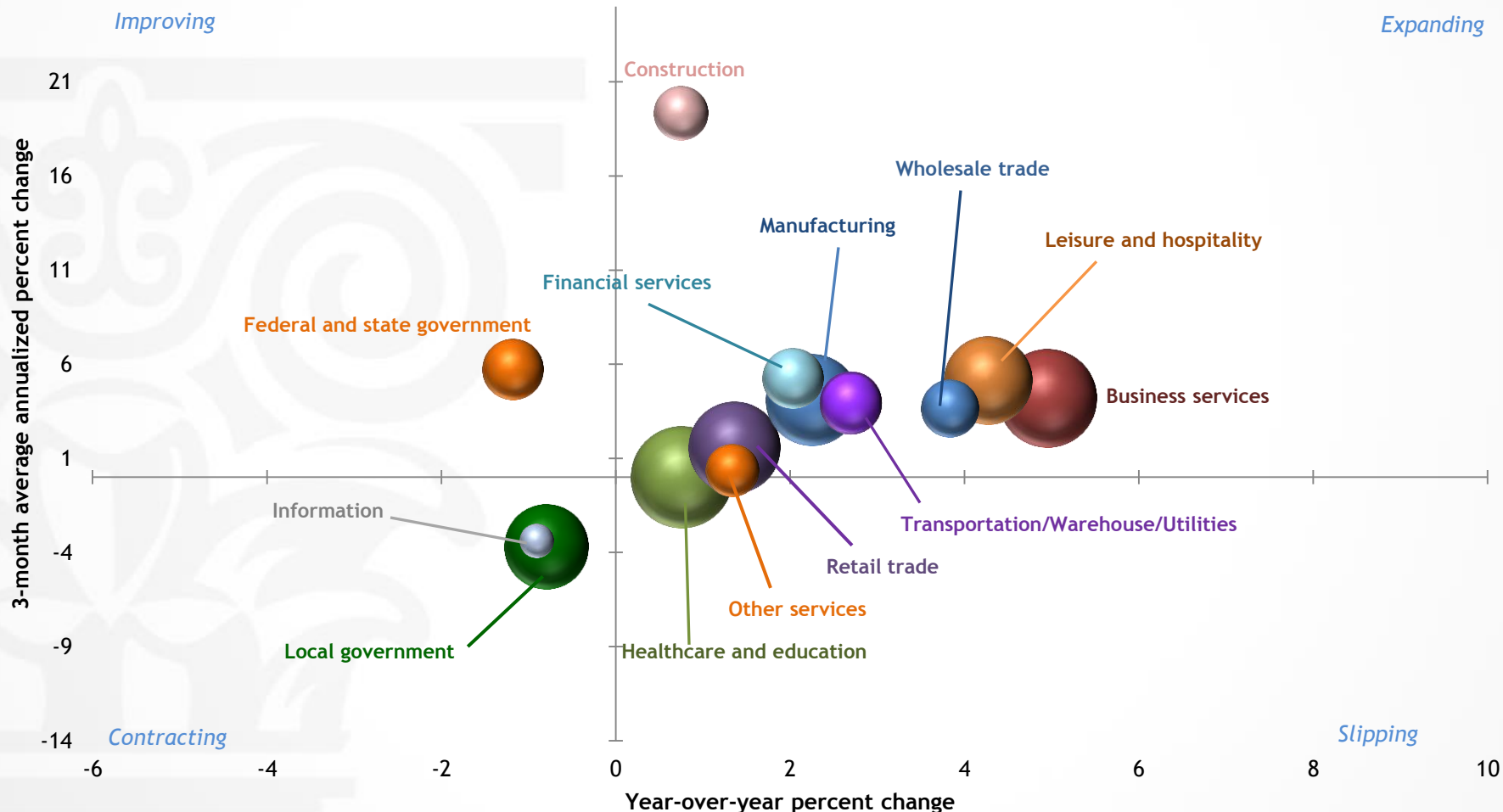


Initial Unemployment Insurance Claims:  
Tennessee  
November 22, 2014



# Employment growth momentum in Tennessee has been positive, with employment in most industry sectors expanding over both the past 3 and 12 months.

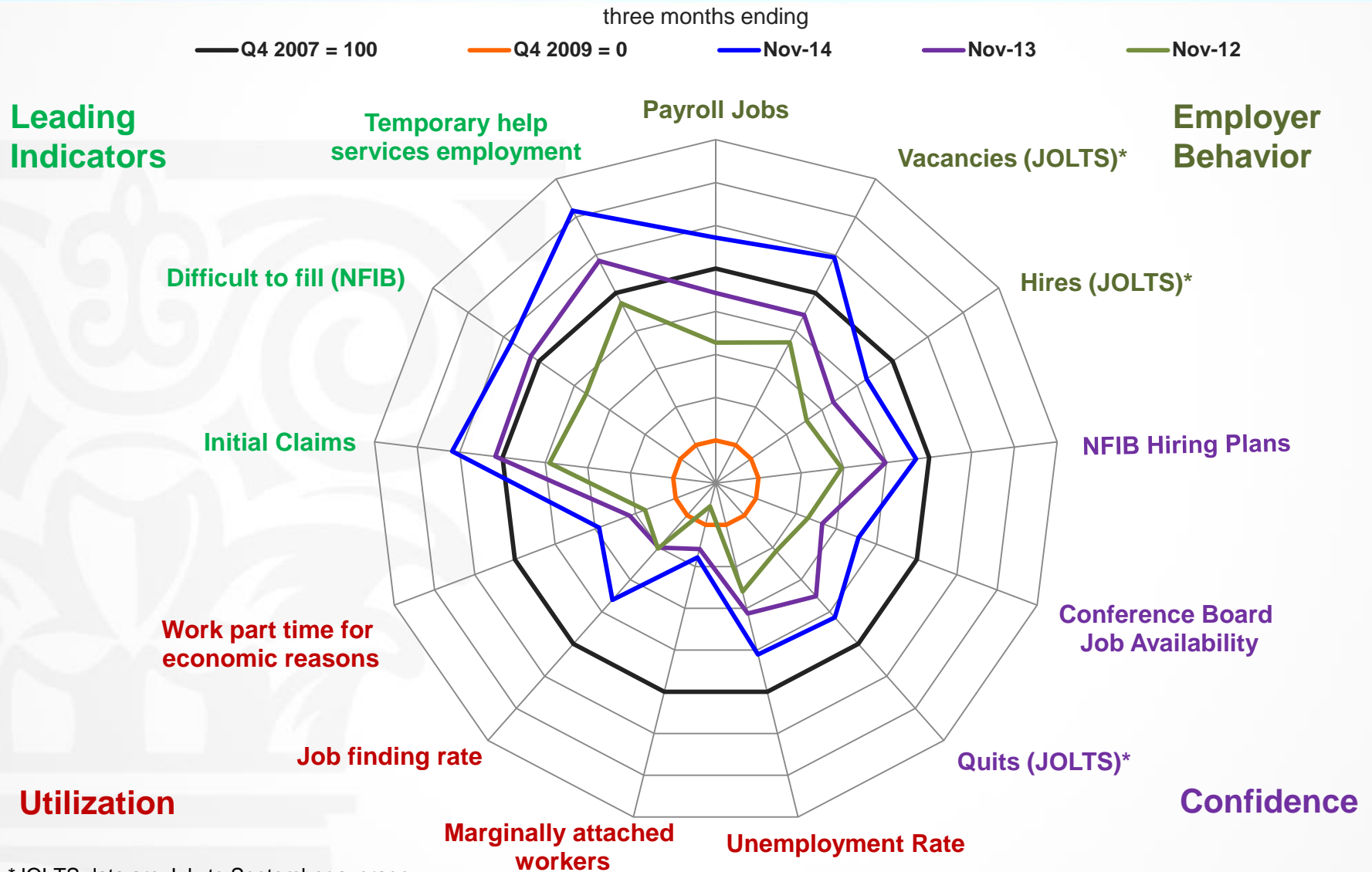
## Employment Momentum by Industry: Tennessee October 2014



Source: U.S. Bureau of Labor Statistics, Haver Analytics, Federal Reserve Bank of Atlanta

# Atlanta Fed Labor Market Progress “Spider Chart”

Viewed as a whole, the labor market picture is uneven.



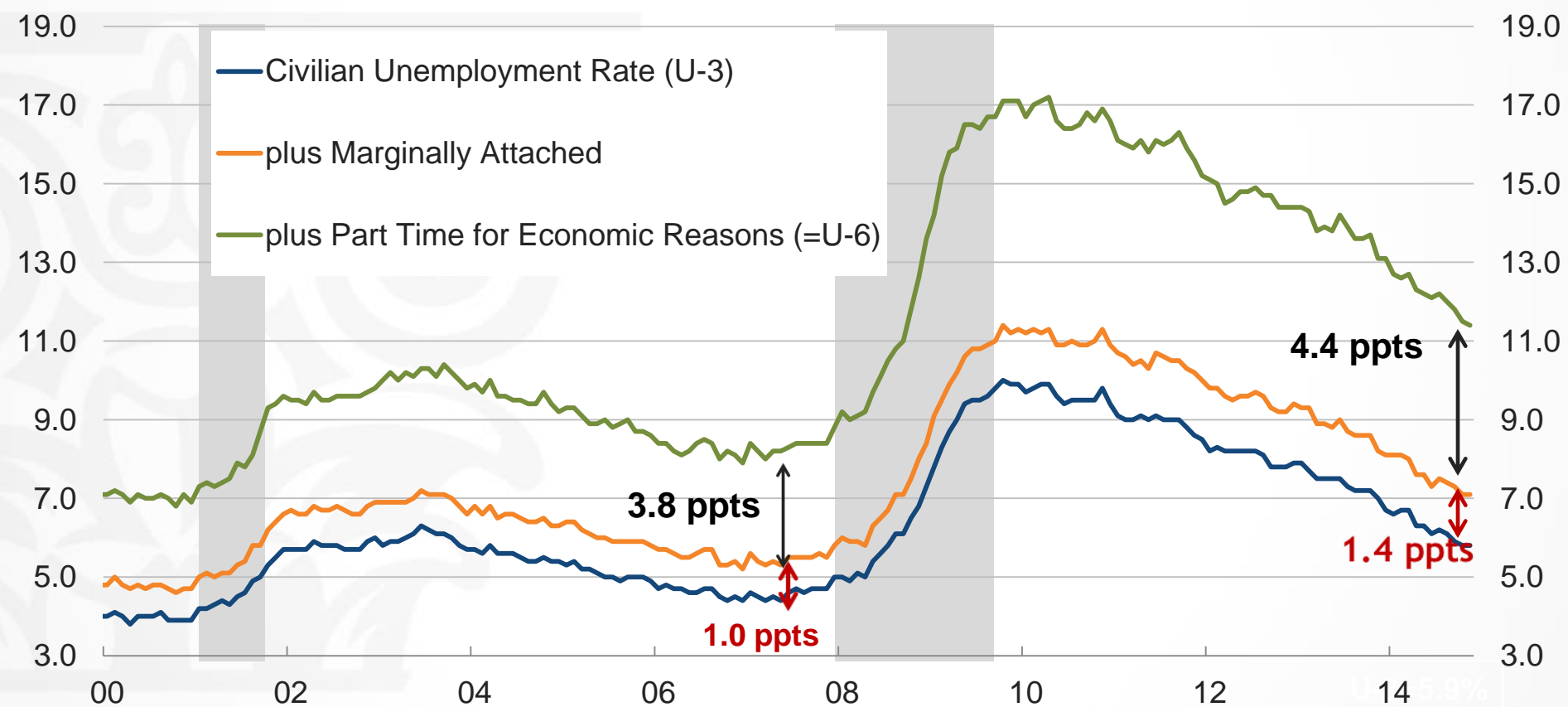
\*JOLTS data are July to September average

Sources: FRB Atlanta, Bureau of Labor Statistics, National Federation of Independent Businesses, The Conference Board, and Department of Labor

through November 2014

# While substantial progress has been made in reducing the US unemployment rate, “slack” in the labor force remains elevated.

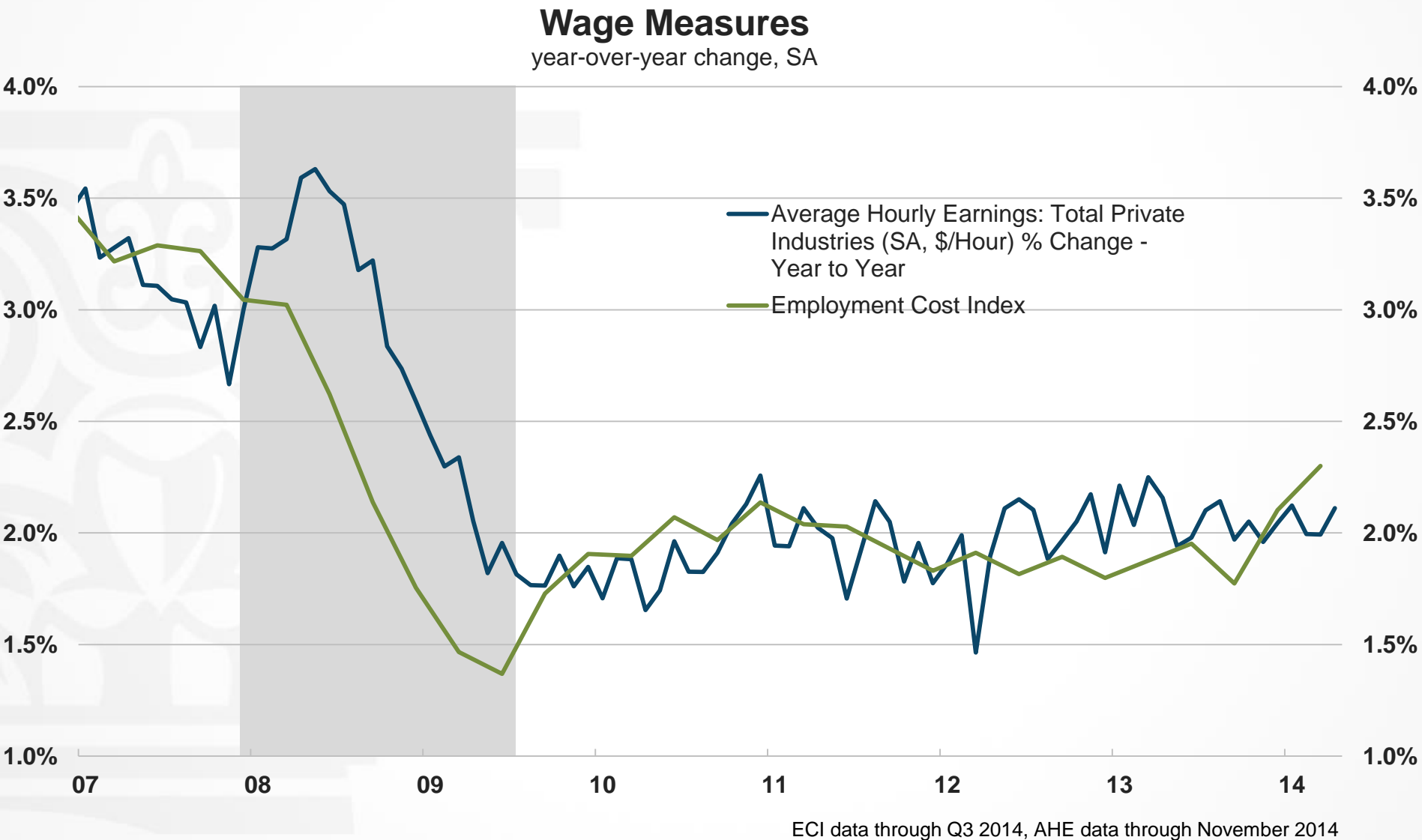
percent, seasonally adjusted



Source: Bureau of Labor Statistics

Note: Figures cited are as of Jan. 2007 and October. 2014

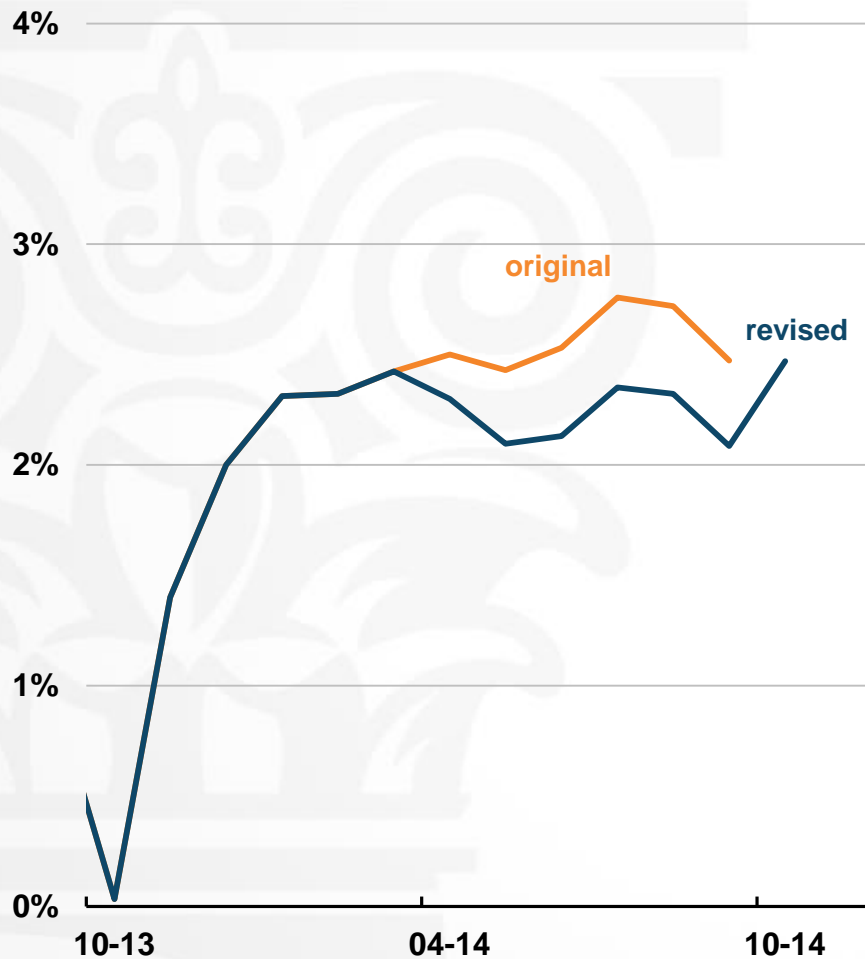
# Wage growth measures have generally remained stuck at around 2% since the recession ended in 2009.



A recent downward revision to disposable personal income growth may help explain why consumption growth has been so soft. Still, in light of falling oil prices and stronger sentiment, conditions appear supportive of an acceleration in consumption growth.

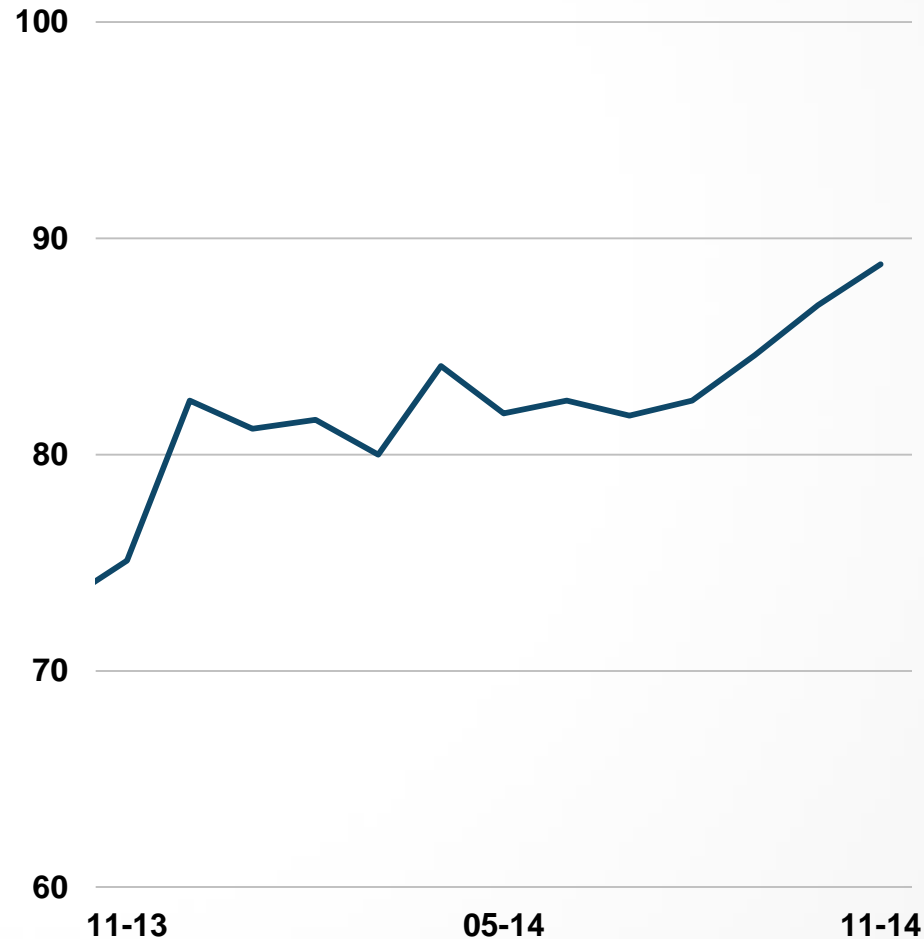
### Real Disposable Personal Income

Percent change, year-over-year



### University of Michigan Consumer Sentiment Index

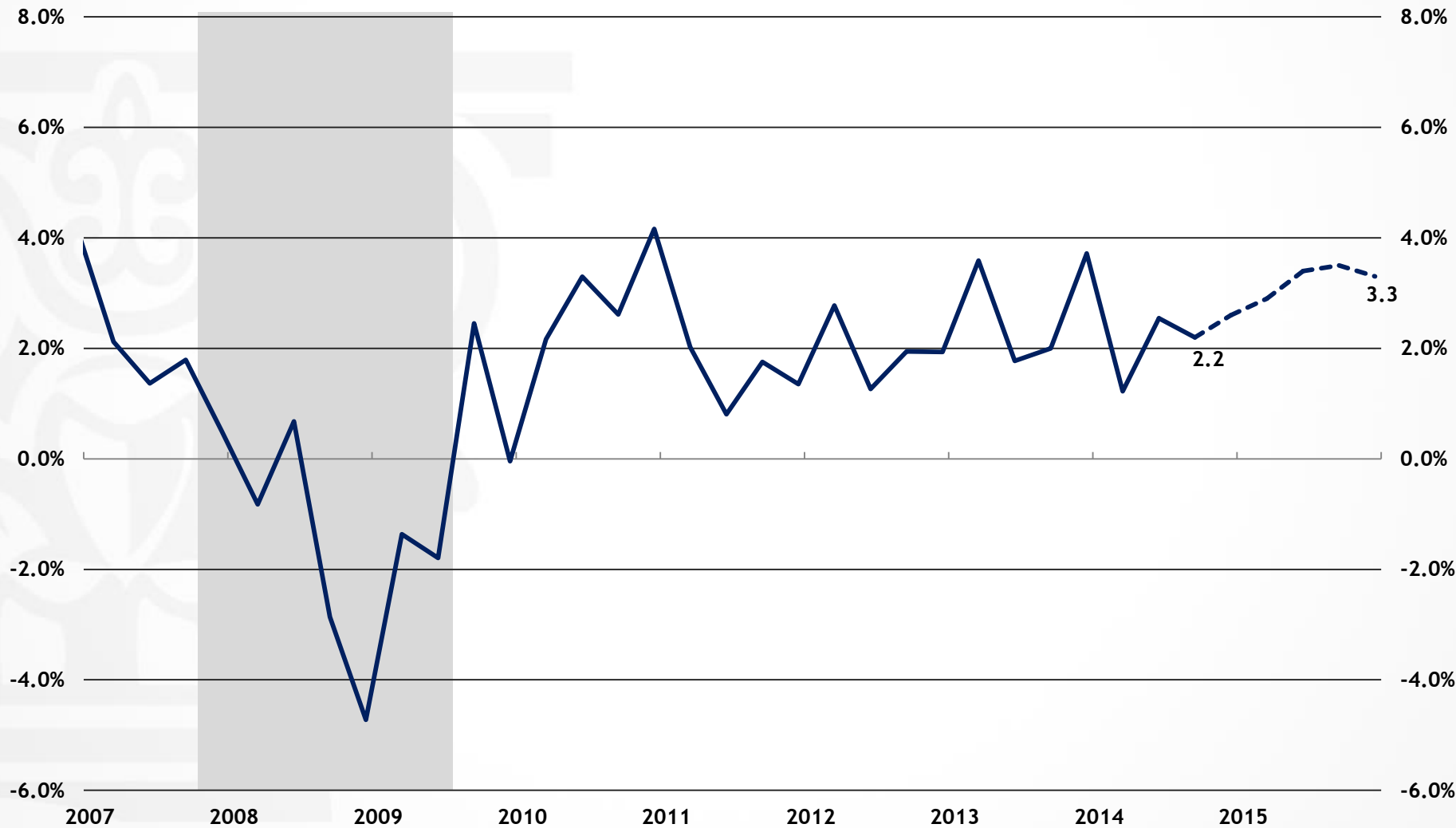
Q1 1966=100



Consumer spending rose 2.2% in the 3<sup>rd</sup> quarter (softer than expected). Some forecasters are projecting accelerating growth in 2015. Consumer spending is a key area to watch going forward.

Real Personal Consumption Expenditure

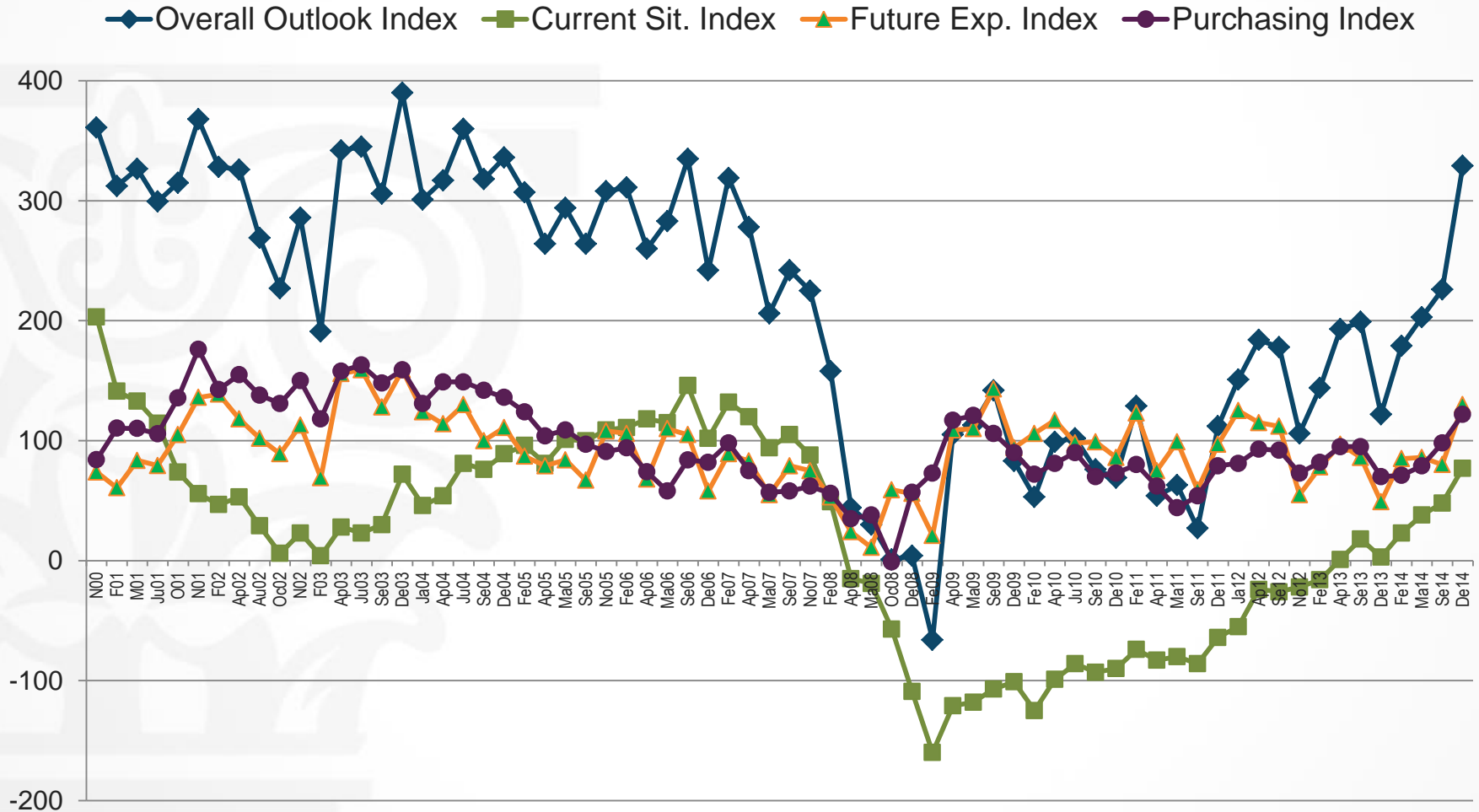
% change annual rate  
Actual through Q3 2014,  
Forecast through Q4 2015



Sources: BEA, Macroeconomic Advisors Forecast, November 2014

# Middle Tennessee Consumer Outlook Index

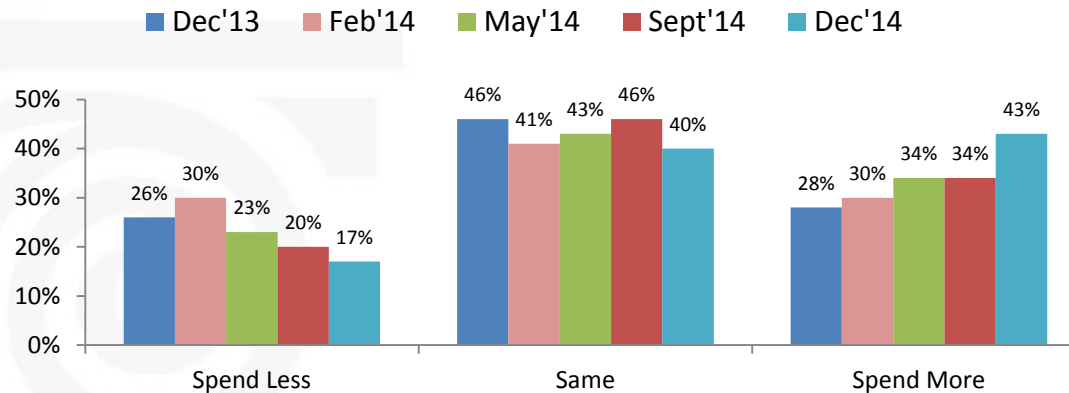
## December's survey results reflect continuing improvement across all measures, approaching pre-recessionary levels.



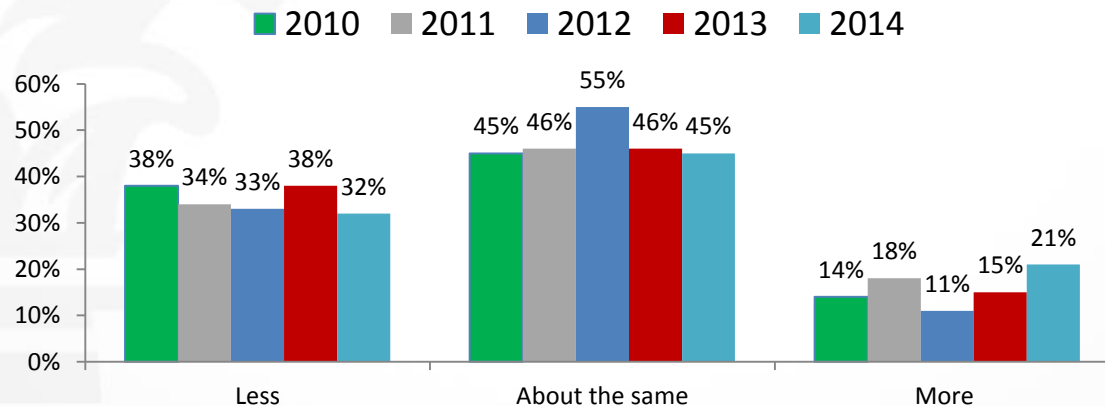
# Middle Tennessee Consumer Outlook Index

Survey results also point to heightened expectations on the part of consumers to open their pocketbooks and increase spending.

Thinking about your overall level of consumer spending, do you think that you will spend more, spend less, or spend about the same as you did last year?



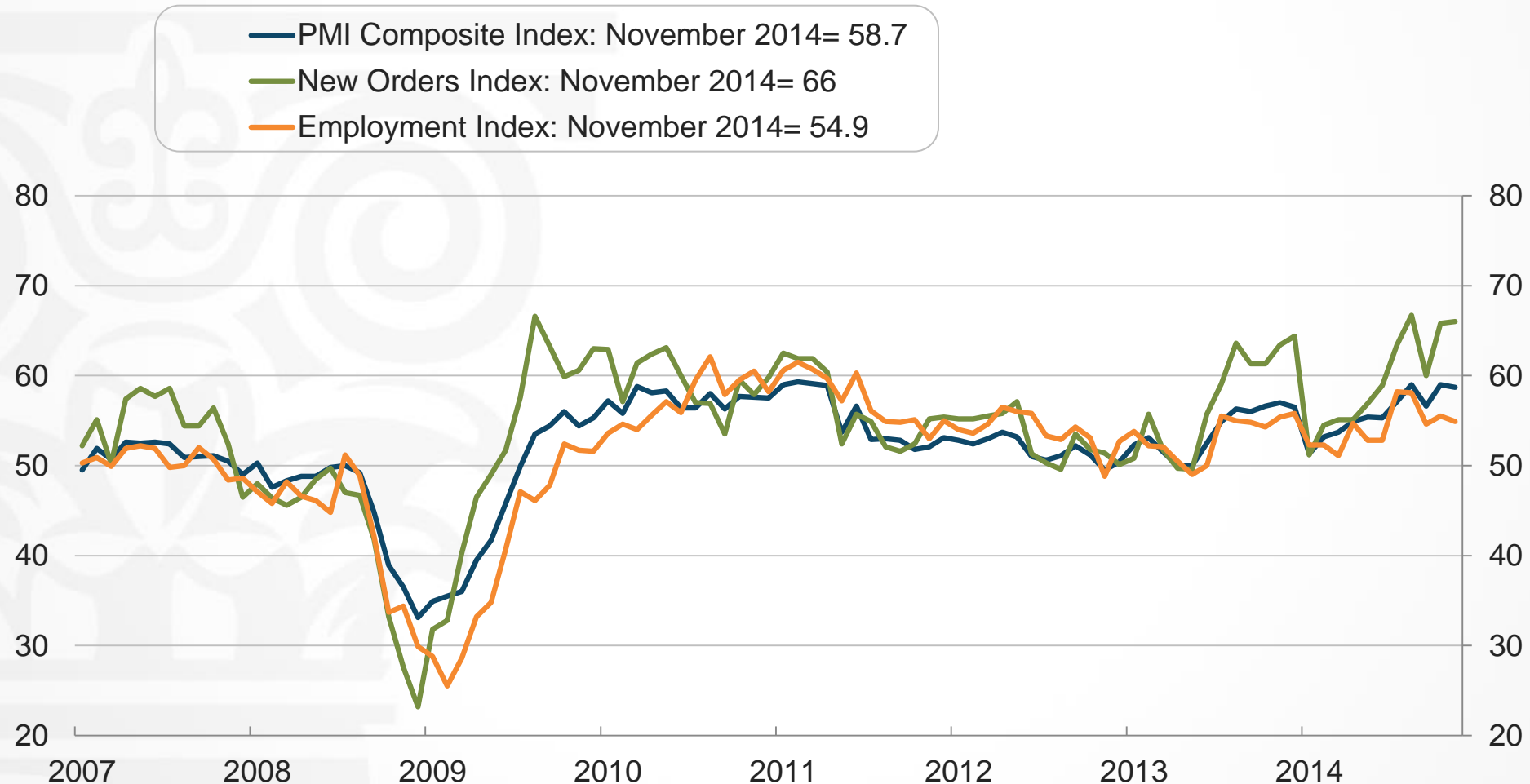
Do you think that you will spend more money on Christmas and Holiday gifts this year compared to last year, less money than you spent last year, or about the same?



**Measures of manufacturing activity continue to indicate positive growth. The new orders component of the PMI Index has been particularly encouraging.**

### ISM Manufacturing Purchasing Managers Index (PMI)

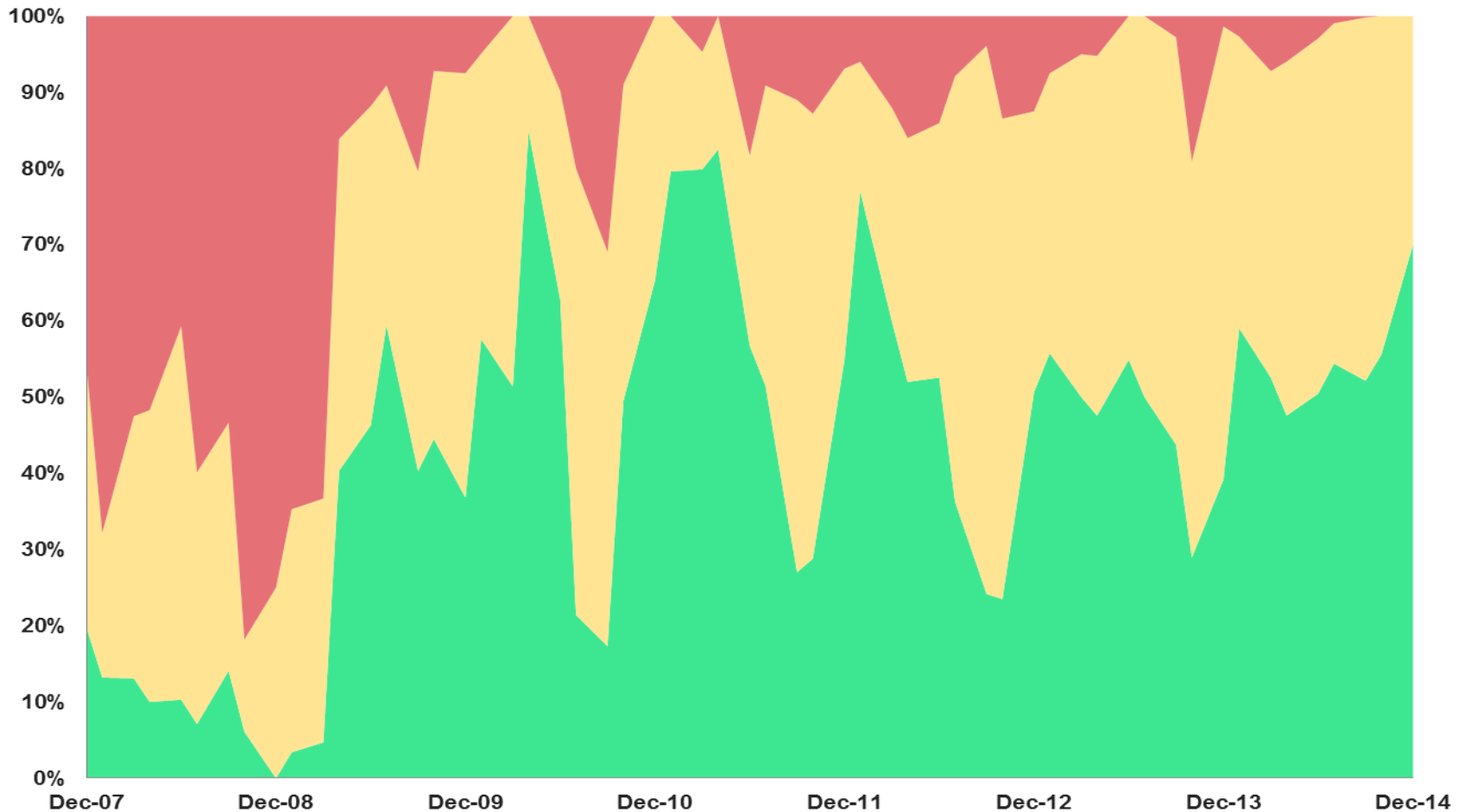
seasonally adjusted, index, 50 or greater indicates expansion, less than 50 indicates contraction



**Our directors' short-term outlook has been roughly evenly split over the past year between expecting higher growth and the same level of growth in their respective businesses. Only a negligible number (most recently, none) expected to see a decline in their businesses' growth rate.**

**What is your outlook for the rate of growth in your business over the next 3 to 6 months compared to current rates?**

■ Higher ■ Same ■ Lower



## **What we're hearing anecdotally from Tennessee business contacts: Increasing optimism about the sustainability of the recovery and the demand for their products and/or services.**

**Most contacts are telling us they expect continued or slightly improved rates of growth in 2015.**

**Specifically:**

- **More companies plan on hiring additional workers.**
- **We're hearing less talk of concern over economic and policy uncertainties.**
- **Risks to U.S. economy do not appear to be as big of a concern as in the past.**
- **Increasing confidence in the outlook for their firms.**

**However, businesses still remain more cautious compared to before the recession.**

# Conclusion: Moderate Growth and Stable Inflation

- In terms of the Atlanta Fed's outlook, we expect the economy to expand on average at or close to a 3.0 percent run-rate over the medium term, predicated on an acceleration of household spending and a continuation of robust business investment.
- Strong payroll jobs growth and continued improvement in the unemployment rate suggest further progress toward achieving maximum employment. However, we have yet to see an accompanying pick up in wage growth, which suggests labor market slack remains.
- The recent sharp appreciation of the dollar and weak global growth tilt our balance of risks to the downside. The risk posed by the recent plunge in oil prices is ambiguous, as lower oil prices may stifle energy-related investment in the near term but boost consumer spending over the medium term.
- Analyst expectations for the fed funds rate path appear broadly consistent with FOMC projections.

# On balance, our outlook is optimistic

**The Atlanta Fed's “working narrative of the performance of the economy in recent and coming quarters...**

- **sustained GDP growth at an annualized rate around 3%,**
- **continued absorption of underutilized labor resources, and**
- **gradual movement toward the 2% inflation objective.”**

**“If it continues to hold up, and I think it will, 2015 looks to be a year of policy transition.”**

**-- FRB Atlanta President Dennis Lockhart**



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